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VIA ELECTRONIC FILING

Ms. Marlene Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Re: In the Matter of the Federal-State Joint Board on Universal Service, CC
Dockets No. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170,
and NSD File No. L-00-72

Dear Ms. Dortch:

AT&T Corp. ("AT&T") files this *ex parte* to assist the Commission in addressing the reform of its universal service contribution mechanism. AT&T became a founding member of the Coalition for Sustainable Universal Service ("CoSUS") because the CoSUS principles best served the public interest by addressing numerous problems that plague the current assessment mechanism making it unsustainable in the long term, including the "death spiral" created by the dramatic decline of wireline interstate telecommunications revenues that, coupled with increased universal service funding requirements, has driven the contribution factor to high levels that are increasingly inequitable and discriminatory among carriers. As the revenue assessment base continues to decline, due to wireless and Internet substitutes, *e.g.*, e-mail, and as providers structure bundles of service to minimize the portion attributable to interstate telecommunications revenues, the revenue-based mechanism will become unsustainable. Moreover, existing reporting lags make the present system discriminatory by imposing a disproportionate share of universal service funding requirements on carriers losing market share. In addition, the "safe harbors" utilized for wireless carriers and international carriers discriminate in favor of those providers and service offerings at the expense of other carriers.



The CoSUS proposal addressed those issues by basing universal service contributions on a per connection basis for residential and wireless carriers and, after an appropriate transition, on a flat-rated capacity-based charge for all business services. It has been suggested, however, that such a connection-based mechanism would somehow extend the contribution obligation to providers of intrastate services, something that would seem inconsistent with the Act's mandate that contributions be made from providers of interstate telecommunications services and the Act's general reservation of jurisdiction over intrastate telecommunications to the states. There was also the concern that the CoSUS proposal could potentially extend contribution obligations to non-telecommunications services providers currently free of such burdens.

Although AT&T believes that those assertions are not meritorious, the Commission need not resolve these deeply held and contentious issues to reform its universal service regime at this time. AT&T believes that the Commission could do so by not adopting the "per connection" assessment vehicle proposed by CoSUS but instead adopting an assessment mechanism triggered by assigned end user working telephone numbers. By assessing universal service contributions on working telephone numbers, all of the infirmities of the current system are addressed, without raising concerns about Commission authority or inappropriate expansion of contribution duties to non-telecommunications services. As such, and as discussed more fully below, a solution based on working telephone numbers offers a more comprehensive approach to resolving this matter quickly, and can be accommodated in the context of the pending proceeding. Because the Commission has plenary jurisdiction over numbering resources that pertain to the United States, the challenges that the FCC has no jurisdiction over "local connections" simply do not apply. 47 U.S.C. § 251(e)(1); *Numbering Resource Optimization, First Report And Order And Further Notice Of Proposed Rulemaking*, 15 FCC Rcd. 7574, 16 (2000).

Under a numbers-based solution, carriers are assessed universal service contributions based on the number of assigned end user working telephone numbers in lieu of physical connections (as CoSUS had proposed). Special access and private lines that do not have assigned telephone numbers could continue to be assessed based on the capacity of their end user connections as proposed by CoSUS and the Ad Hoc Telecommunications Users Committee. In addition to addressing some of the legal issues associated with connections, telephone numbers should be superior to physical connections simply because there are a greater volume of numbers versus connections, and thus, the unit assessment rate should be less. In addition, numbers are stable and growing. A numbers-based solution would provide a sufficient and sustainable universal service assessment and recovery mechanism. Using numbers as the assessment mechanism also offers the potential for carriers and their customers to conserve telephone numbers, a public policy benefit in its own right.

Use of working telephone numbers as the basis for assessing contributions also eliminates the concern that contributions could be required of any provider other than a provider of telecommunications service. Today, telephone numbers are assigned for

use in connection with telecommunications services provided by telecommunications carriers, and virtually all of these telephone numbers are providing interstate telecommunications. By using working telephone numbers as the basis for assessing contributions, the Commission can assure itself that providers of interstate telecommunication services are contributing to Universal Service support while at the same time eliminating the risk that assessments would be imposed on providers of non-telecommunications services. The Commission would also be using a mechanism (i.e., numbers) that is clear, easy to administer and well understood by consumers.

Carriers should be able to implement a number-based mechanism for residential and wireless services by April 1, 2003, because with limited exceptions connections and telephone numbers are the same for these services. All carriers' switched and private line business services could continue to be assessed on a revenue basis, as described in CoSUS' October 10, 2002 *ex parte*, until the Commission completes an expedited proceeding to determine how multiline switched business services (e.g., Centrex and PBX-based services) would be treated under a numbers-based approach as well as other potential issues. During this time, the Commission should also determine how residential toll-free numbers and distinctive ring numbers should be addressed.

If this solution is not implemented on April 1, 2003 and the current assessment mechanism remains, AT&T estimates that the current assessment rate will rise from 7.28% to approximately 9.5%, a 30% increase. Such an increase could drive AT&T's residential universal service collection rate from its current value of 11% to approximately 14%, due to the six month revenue assessment lag, uncollectible revenue (e.g., the carrier is assessed and bills the customer who does not pay the bill) and unbillable revenue (e.g., billing local carriers refuse to add a universal service collection rate line item to the bill so that the long distance provider lacks the ability to bill its end user customer).

For the reasons set forth above, and in the overriding interest of reforming the Commission's universal service contribution mechanism, AT&T urges the Commission to adopt an assessment based on working telephone numbers as described above.

In accordance with FCC rules, a copy of this letter is being filed in each of the above-captioned dockets.

Respectfully yours,

Robert W. Ziff

cc: Commissioner Kevin Martin
Commissioner Michael Copps
Commissioner Kathleen Abernathy
Chairman Michael Powell
Dan Gonzalez
Jordan Goldstein
Matt Brill
Christopher Libertelli
Bill Maher
Carol Matthey
Jessica Rosenworcel
Scott Bergmann
Eric Einhorn
Paul Garnett